

Message Text

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ACTION AID-31

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 1828

C O N F I D E N T I A L NEW DELHI 7335

E.O. 11652: GDS

TAGS: EFIN, IN

SUBJECT: DEBT RESCHEDULING

REF: STATE 113710

1. IF THE US TAKES A POSITION AT THE PARIS CONSORTIUM OF NON PARTICIPATION, PARTIAL PARTICIPATION, OR DEFERRAL OF PARTICIPATION, THE GOVERNMENT OF INDIA IS LIKELY TO SEE THE US ACTION AS A REACTION TO THE INDIAN NUCLEAR TEST. TO THE EXTENT THAT A US POSITION IS TAKEN IN THE COMPANY OF OTHER DONORS (IN ADDITION TO THE CANADIANS AND JAPANESE) THE LIKELIHOOD IS REDUCED. TO THE EXTENT THAT THE US FINDS ITSELF ISOLATED, IT IS INCREASED. IN VIEW OF THIS, WE RECOMMEND THAT THE US POSITION, EVEN IF BASED ENTIRELY ON ECONOMIC GROUNDS, BE EXAMINED IN THE CONTEXT OF THE STUDY UNDER WAY OF THE IMPLICATIONS ON THE INDIAN TEST.

2. IN REGARD TO PURLY ECONOMIC ASPECTS WHICH WE CONSIDER SIGNIFICANT, WE HAVE ALREADY COMMENTED ON THE VALIDITY OF THE BANK'S FORECAST OF INDIA'S BALANCE OF PAYMENTS AND FOREIGN EXCHANGE NEEDS. WE HAVE THE FOLLOWING FURTHER COMMENTS:

A. WE CONSIDER THE BANK'S PROPOSAL FOR A FLAT 45 PERCENT RESCHEDULING FOR ALL DONORS TO BE UNFAIR TO DONORS SUCH AS THE UNITED STATES WHICH HAVE EXTENDED AID TO INDIA ON RELATIVELY

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SOFT TERMS DURING EARLIER YEARS. ACCORDING TO OUR PRELIMINARY

ANALYSIS THE EFFECT OF SWITCHING FROM LAST YEAR'S COOMBS APPROACH TO THE PRESENT BANK PROPOSAL INCREASES OUR SHARE OF DEBT RESCHEDULING FROM ABOUT 15.5 PERCENT TO 21.5 PERCENT OF THE TOTAL. UNITED STATES SUPPORT FOR A THIRD YEAR OF THE COOMBS FORMULA IS LIKELY TO DRAW SUPPORT FROM OTHER DELEGATIONS SUCH AS CANADA, UNITED KINGDOM AND SWEDEN.

B. WE BELIEVE THAT THE USG SHOULD ASSERT ONCE AGAIN THAT NON-CONSORTIUM CREDITORS SHOULD DO THEIR FAIR SHARE FOR INDIA, THOUGH THIS IS CURRENTLY LESS OF A PROBLEM THAN EARLIER. WE NOTE THAT THERE ARE NOW TWO SUCH GCCUPS, THE EAST EUROPEAN COUNTRIES AND THE OPEC COUNTRIES. WE THINK IT WOULD BE APPROPRIATE FOR THE US DELEGATION TO NOTE THAT LAST YEAR FOR THE FIRST TIME IN SEVERAL YEARS THERE WAS A POSITIVE FLOW OF RESOURCES FROM EAST EUROPE TO INDIA. WE YET URGE THE GOI TO TAKE

STEPS TO ASSURE THAT THIS CONTINUES, WHETHER BY INCREASED AID FLOWS OR SHIFTS INTRADE PATTERNS WHICH WOULD ALSO INCREASE INDIA'S EARNINGS OF FOREIGN EXCHANGE. THE INDIANS ARE LIKELY TO NOTE THAT THE COMPOSITION OF INDIAN IMPORTS HAS SHIFTED POSITIVELY - PARTICULARLY IN FERTILIZER, PETROLEUM PRODUCTS,

ETC. WE MIGHT WISH TO NOTE THAT IRAN AND IRAQ HAVE ALREADY MADE SOME DEFERRED PAYMENTS ARRANGEMENTS WITH INDIA BUT THESE ARE RELATIVELY SHORT TERM AND ONLY COVER ABOUT ONE QUARTER OF INDIA'S PETROLEUM IMPORTS. FURTHER AND MORE LIBERAL EXTENSION OF SUCH ARRANGEMENTS WOULD BE USEFUL. WE ALSO WOULD RECOMMEND THAT THE USG GIVE SERIOUS CONSIDERATION TO PROPOSING THAT OPEC COUNTRIES BE FORMALLY INVITED TO JOIN THE CONSORTIUM.
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